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October 15, 2003

Mr. Bruce Gelband  
Regional Contracting Officer  
United States Agency for International Development  
Bank Center Building Granit Tower, 5th Floor  
Szabadsag Ter. 7-9  
1944 Budapest Hungary

RE: Contract No. EEU-I-00-99-00015-00, TO No. 810  
UI Project 06901-013, Albania Local Government Assistance and Decentralization  
*Quarterly Task Order Progress and Cost Report, July to September 2003*

Dear Mr. Gelband:

Please find enclosed *Quarterly Task Order Progress and Cost Report, July to September 2003, Albania Local Government Assistance and Decentralization*. This report is required by Sections F.5 and F.6 of our Local Government Assistance Initiative Indefinite Quantity Contract.

Please direct any technical questions to Mr. Bart Kennedy at +355-42 568-323 or E-mail at BartKennedy@yahoo.com. Questions of a contractual nature should be addressed to me at (202) 261-5396.

Sincerely,

Maria C. Andrade-Stern

Enclosures

cc: Eric Richardson (CTO, USAID/Albania)  
Mike Keshishian (CTO/W, USAID/W)  
Bart Kennedy (CoP, UI/Tirana)  
USAID Development Clearinghouse  
IAC Deliverables File (06901-013)  
IAC Chron File

**QUARTERLY TASK ORDER  
PROGRESS AND  
COST REPORT**

**JULY TO SEPTEMBER 2003**

**ALBANIA DECENTRALIZATION  
INITIATIVES**

Prepared for



Albania Decentralization Initiatives  
United States Agency for International Development  
Contract No. EEU-I-00-99-00015-00, Task Order No. 810

Prepared by

Bart Kennedy  
*The Urban Institute*



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October 2003  
UI Project 06901-013

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**ATTACHMENT**

Cost Report

**QUARTERLY TASK ORDER PROGRESS AND COST REPORT  
JULY TO SEPTEMBER 2003  
ALBANIA DECENTRALIZATION INITIATIVES**

**Task Order No.:** EEU-I-00-99-00015-00, Task Order No. 810

**Date of Issuance:** September 25, 2000

**Amount Obligated Under Task Order:** \$5,812,905

**Total Potential Task Order Amount:** \$5,812,905

**Dollars Expended To-date:** \$3,593,733

**Key Personnel:** Bart Kennedy, Chief of Party  
E-mail: bart\_al2002@yahoo.com  
Tel.: (355) 4 256-832

**Task Order Description**

In September 2000, the United States Agency for International Development (USAID) contracted the Urban Institute (UI) to implement a three-year local government project in Albania. This project will assist the Government of Albania in the implementation of its decentralization strategy and in building capacity of local government units to fulfill their newly mandated responsibilities. It will also support association development and focus on increasing citizen participation in targeted units of local government. The project builds on UI's two previous projects in Albania that fostered the environment for ongoing reforms.

**I. HIGHLIGHTS**

- Initiation of a formal budget dialog between local governments and Central Government Ministries in preparation for the 2004 budget
- Completion of Guide Plan for Investments (GPI) by a significant number of cities/communes.

## **II. PROGRESS OF MAJOR ACTIVITIES**

### **Decentralization Activities (Legal Sustainability and Policy Framework)**

This quarter the Urban Institute built upon the opportunities for improving the implementation of the new local tax laws that were identified last quarter. After obtaining agreement in principle among key stakeholders on establishing a discussion “platform” for resolving some budget issues related to local governments, the Urban Institute was instrumental in facilitating a “first ever” formal budget dialog between selected representatives of local governments and Ministries. It also facilitated the completion of technical documents for distribution to participants and assisted specifically the Ministry of Finance and the Ministry of Local Government. Key stakeholders participating in this discussion were the Albanian Association of Municipalities, Association of Communes, the Ministry of Local Government and Decentralization, Ministry of Finance, Ministry of Economy, Ministry of Regulated Territory and Tourism, The Water Regulatory Agency, and the Ministries of Health, of Education, and of Labor. This “platform”, or forum of key stakeholders, permitted local governments to have timely input to the forthcoming budget and budget instructions. Local governments raised a number of issues of importance to them while relevant Ministries responded. The discussion was open, at times intense and always participatory. USAID had representatives throughout the two days of meetings.

The meeting was chaired by the Deputy Minister from the Ministry of Local Government and Decentralization. The Deputy Minister from the Ministry of Finance was a very active participant for the duration of the two-day meeting. The Association of Communes fielded a sizeable delegation to express views on a number of issues, especially health and water.

Issues discussed were: timeliness of budget instructions, in addition to the content; timely registration of small businesses; estimation of fiscal capacity; timeliness of funds transfer from central to local governments; a more accurate estimation of fiscal capacity; feasibility of turning over to local governments collection of vehicle registration tax; the size of the unconditional transfer pool; transfer of water assets; continuation of subsidies for water companies; funds earmarked for healthcare from local government budgets; who sets water tariffs; whether funds for local urban roads will be included in the pool for unconditional transfers, etc.

Day one of the budget dialog dealt with the macro and fiscal framework for the 2004 State budget, including the link with NSSED and MTEF to the State budget. This included a brief review of the evolution of the first year of implementation of the local fiscal reform and of the performance of local tax revenues. The actual performance of the latter exceeded estimations. Also discussed was the evolution and possible changes to the unconditional transfer formula for 2004 given the current year experience.

Day two of the dialog examined finance policy issues related to the own and delegated functions (education, health, social assistance) of local government. Considerable discussion was devoted to the funding of primary healthcare and to the transfer of water assets and companies to local governments. Main areas of concern for the latter topic were disposition of accumulated



liabilities, funding of capital investments and continuation of operating subsidies. No definitive conclusions were reached on these for the benefit of local governments.

Property transfer to local governments is moving very slowly. This is partly because the MoLGD has given priority to transferring to the Ministries their properties, thus causing something of a delay to local governments. But it is due also to the reluctance of local governments to press for the transfer of property that has experienced decades of deferred maintenance. Many cities are in various stages of completing the inventory of property to be requested.

The transfer of water assets and service to local governments is moving slowly along with the slow pace of the transfer of property in general. In an effort to break this "logjam", the Urban Institute initiated two pilots to inform two pilot local governments (Librazh and Gramsh) of the financial, technical and management issues related to the transfer of water assets. The respective water companies and units of local government that are part of the water system were convened by Urban Institute to obtain support of a detailed analysis of the water systems. Both cities endorsed the approach and are currently in the process of completing a description of the physical and technical condition of the pumps and pipes. At the same time this is happening there is a financial analysis of the operations of the respective water companies. Both of these tasks should be completed by the end of the year.

### **Capacity Building (Training for Local Governments)**

With the approval of a one year extension, the Urban Institute initiated a set of three activities designed to increase citizen involvement and enable participating local governments to be responsive to local preferences within the constraints of the local budget.

Follow-up actions were initiated during the quarter for the pilots on different ways of "informing" budget decisions relative to service priorities. The pilot cities completed an analysis of past expenditures and identified service areas that could be subject performance improvements. Four of the cities had citizen surveys completed in order to ascertain what the community saw as priorities and thus provide this input to technical staff in their recommendations to the city council for services to improve during 2004. Workshop participants, who consisted of city teams comprised of finance staff, public service staff and elected officials, were introduced to the notion of focusing on the quantity and quality of service desired by citizens. In a follow-up workshop technical staff drafted their recommendations for improvement areas with supporting arguments and data. The next quarter technical assistance will focus on assisting the pilot cities with devising an implementation plan for performance improvement.

Follow-up activities in the second pilot area – operation and maintenance of education facilities – resulted in a clear success in one of the cities, Pogradec. Pogradec organized itself to conduct and complete an evaluation of the physical condition of one of the schools. They produced a document containing pictures and graphs of their findings and then identified maintenance priorities for the coming year of 2004. These were presented to the City Council for inclusion in the 2004 budget. This was done. Urban Institute will assist this and the other pilots with devising action plans for

their maintenance priorities. All seven of the pilot cities completed an analysis and made their recommendation to the city council for the 2004 budget but only Pogradec presented this in a bound document with color photographs of their findings.

In July the Urban Institute conducted a workshop for the water pilots and invited all stakeholders---cities, water companies, Ministry of Economy, Ministry of Regulated Territory, Ministry of Finance, Water Regulatory Agency, Property Transfer Agency and Ministry of Local government and Decentralization. Participants were informed of the policy issues and options, introduced to those decisions that are solely those of local government according to Council Of Ministers Decision 550 and provided with examples of water transfers from other European countries. Follow-up visits were then made with the respective stakeholders during the quarter and the two pilot cities initiated their analysis of the technical and financial conditions of their respective water companies.

### **III. DELIVERABLES AND REPORTS**

None at this time

### **IV. PROBLEMS OR DELAYS**

Local elections are scheduled for mid-October and will create a “distraction” for local governments. It is anticipated that many current mayors will not re-candidate for election. Election results have been contested by the opposition party in the past. This tends to delay ratification of mayors and council. If there is a change of government, which has been rumored for some time, then there may be additional delays.

### **V. WORK PLANNED NEXT REPORTING PERIOD**

#### **Decentralization**

- Refinement of the budget formula for the 2004 budget year
- Assisting selected Ministries and associations to improve fiscal decentralization practice
- Assistance with MTEF
- Completion of “due diligence” analysis in the two water pilot cities
- Continued cooperation with AAM

#### **Capacity Building**

- Follow-up workshop and expansion of trained observer rating in pilot cities
- Provision of training materials to Peace Corp
- Revisions to Planning Guide for Investments for 2005 budget year



- Follow-up on new ways of informing local budget decisions
- Follow-up on education facilities pilots
- Completion of technical and financial analysis of pilot water companies

**VI. SPECIFIC ACTION REQUESTED**

None at this time